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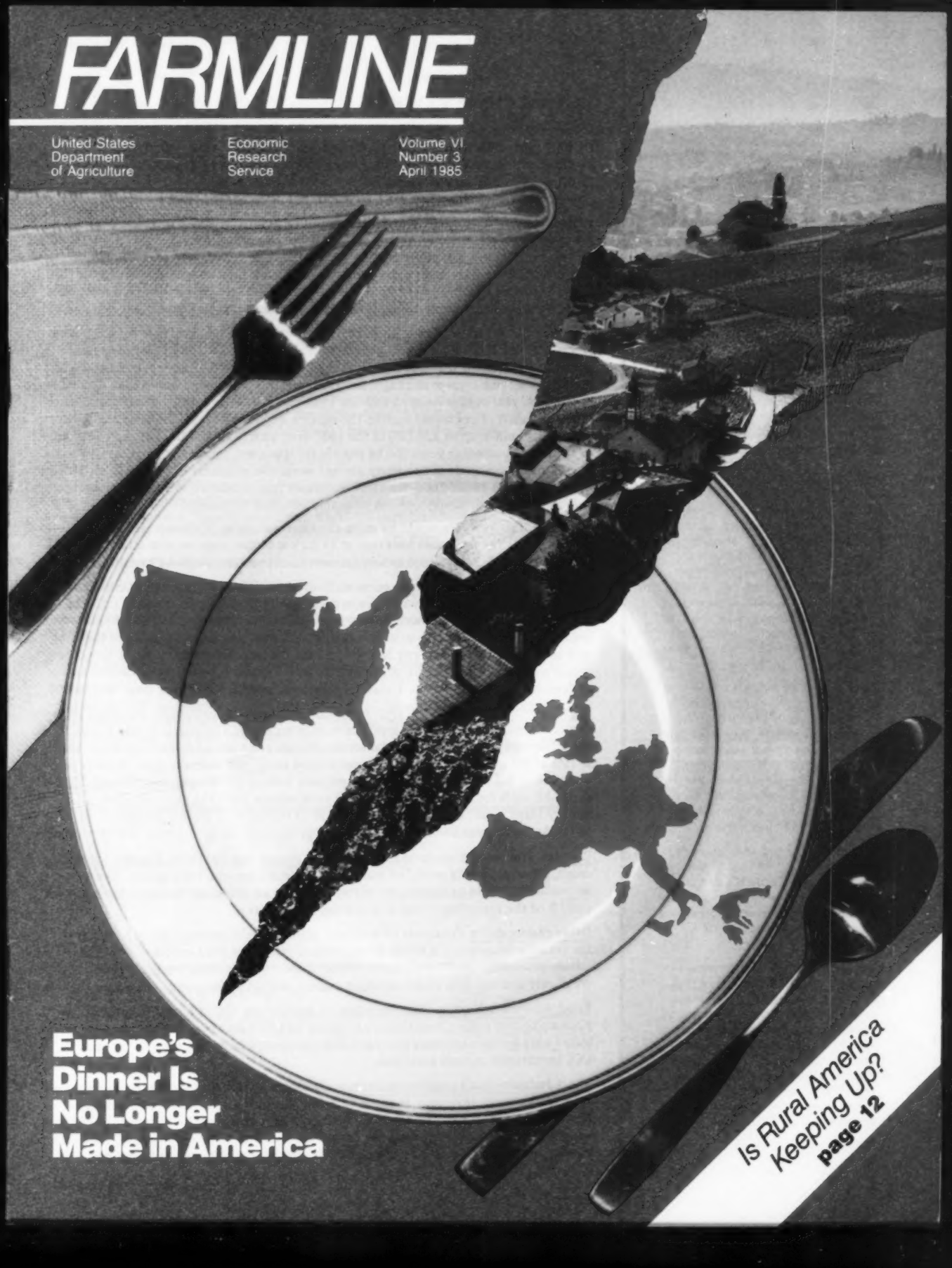

Europe's Dinner Is No Longer Made in America

Is Rural America Keeping Up? page 12

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PERSPECTIVES

DEBATE ON THE NEW FARM BILL has begun in earnest, with several proposals, including the Administration's, on the congressional agenda. Deliberations are expected to be intense through spring and summer before a decision is reached later this year on the direction of farm policy. The 1981 farm bill expires on September 30.

Under the Administration's proposed Agricultural Adjustment Act of 1985, domestic commodity programs would change substantially. Beginning in 1986, loans made on all program commodities would be nonrecourse up to a crop year limit of $200,000 per producer. Nonrecourse loans allow producers to forfeit their collateral crops to the CCC rather than repay their loans. Amounts above $200,000 would be considered recourse loans, and producers would be required to repay principal plus interest.

For wheat, feed grains, cotton, and rice, producers would remain eligible for CCC loans and target price supports. The loan level would be set each year at 75% of the average market price over the previous 3 years. Target prices for 1986 crops would be 100% of the 3-year moving average market price. However, this percentage would then decline 5 points each year until it reached 75% for 1991 and following crops. At that point, loan rates and target prices would match. The current direct payment limit of $50,000 per producer would drop to $20,000 in the 1986 crop year, $15,000 in 1987, and $10,000 in 1988 and succeeding years. To be eligible for loans and deficiency payments, producers must participate in voluntary acreage reduction programs of 15% in 1986, 10% in 1987, and 5% in 1988. Then, for 1989 and thereafter, legislative authority for acreage reduction and other supply control programs would be terminated.

Soybeans. The loan rate would be set in the same manner as for wheat, feed grains, cotton, and rice. The minimum loan rate of $5.02 per bushel, now written into law, would be eliminated. No target price or acreage reduction program would be available.

Dairy. Major changes would not occur until the 1987/88 marketing year. Until then, the dairy purchase program stays in place, with support prices initially set at $11.60 per cwt, and provisions for possible downward adjustments. Beginning in 1987/88, however, a direct payment program would be established. Target prices would be set in the same way as described for wheat and feed grains with the target level dropping to 75% of the 3-year moving average of milk prices by 1990/91. Payments would be calculated as the difference between the market and the target price, with a payment limit of $10,000.

Sugar. Starting with the 1986 crop year, sugar producers would qualify for direct payments, subject to the same payment limits as other crops. The payment rate would be the difference between the national season average price and an established price, which is 75% of the most recent 3-year average market price, but no lower than 18 cents per pound in 1986. The minimum established price falls by 2 cents per year through 1989 and is 12 cents for 1990. There would be no minimum for 1991 and thereafter. Commodity loans would be available at the lower of two rates: 12 cents per pound, or 75% of the 3-year moving average of U.S. market prices.

Peanuts. The current quota system would be phased out by 1991. For the 1986-90 crops, direct payments would be made only to producers who hold quotas. Thereafter, all producers would be eligible for payments. The loan rate is the lower of $250 per ton or 75% of the preceding 3-year U.S. average market price.

Other commodities. Producers of wool and mohair would receive a direct payment if the season average price is below an established price—the 1984 support level or a declining percentage (to 75 percent by 1991) of the 3-year moving average market price, whichever is lower. The honey program is gone, and no replacement is provided.

Food Assistance Reserve. The Secretary of Agriculture would have the authority to place up to 500 million bushels each of wheat and feed grains in a reserve that can be released only for humanitarian purposes. The necessary stocks may come from existing CCC inventories or from purchases.

The Administration's proposal includes sodbuster provisions to protect highly erodible soils. Under these provisions, if any land is brought into production that qualifies as highly erosive in that use, no land farmed by the producer would be eligible for program benefits. The bill also proposes trade expansion programs using negotiations, loan guarantees, and other measures to counter trade barriers and improve U.S. exports.

FARMLINE

AGRICULTURE . . . NATURAL RESOURCES . . . RURAL DEVELOPMENT
Practical economic intelligence from USDA's Economic Research Service

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Although the European Community is still a major market for America's farm products, it is no longer the dependable growth market it used to be. Our sales are dropping as the EC succeeds in filling its own table and the dollar continues to fly high.

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If size were the only measure, America's rice industry would end up on the short side. But value is not measured by size alone. One of USDA's rice analysts tells why, and then outlines some of the pressing issues facing the industry.

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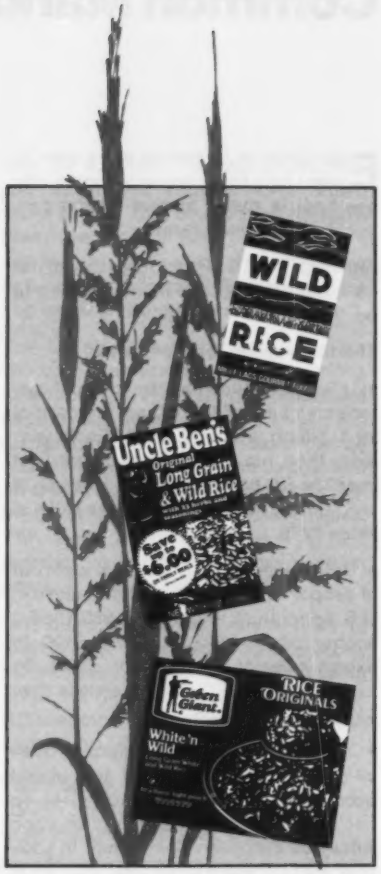
Wild rice is misnamed, expensive, and a bit strong for many palates. All that hasn't stopped it from becoming a modest commercial success thanks to the agronomists who helped tame it, the marketers who found the right blends, and the Minnesota and California farmers who are now growing more than 3 million pounds of it.

The Boom Has Faded, and Many Rural Areas Lag Behind *by Doug Martinez* 12

A decade ago, rural areas were booming. Both jobs and people flocked to rural America, capping an economic transformation that was already well underway. In recent years, however, the boom has faded, and many rural areas are falling behind their metro counterparts.

Farm Policy Shifts: Trouble for Rural Counties? *by Doug Martinez* 14

How will farm policy shifts affect rural communities? The large majority of rural counties no longer rely heavily on farm income, ag-related jobs, or farm programs. But several hundred farm-dependent counties may not escape the consequences, and many have little else to fall back on.



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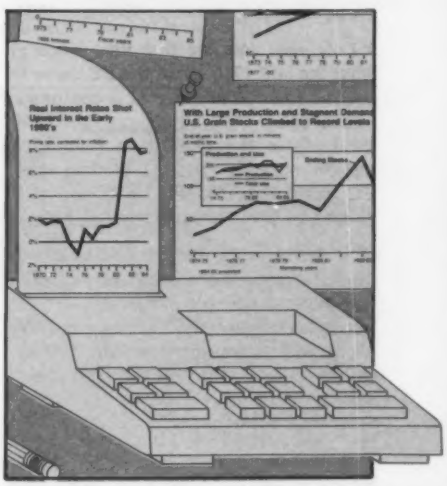
Land values, interest rates, exports, commodity stockpiles, production costs and farm prices, farm income—this special centerfold of charts illustrates some of the developments that have combined to put many farmers in a tenuous financial position.


Real Interest Rates Shot Upward in the Early 1980's
With Large Production and Stagnant Demand U.S. Grain Stocks Climbed to Record Levels

Counting Up Our Losses in the Common Market

Ever since its formation more than 25 years ago, the European Community has been a major market for the products of America's farms.

Although the EC is still a huge buyer, it is no longer the growth market it used to be.

The facts speak for themselves:

• U.S. agricultural exports to the 10 current members of the EC set a record of $9.8 billion in fiscal 1980. Each year since then, our sales have declined. Last year, the EC bought $6.7 billion worth of U.S. farm goods, the lowest sales level since 1976.

• U.S. losses in the EC market were out of proportion to the overall downturn in U.S. agricultural exports. In 1980, the EC accounted for $23 of every $100 in export sales of U.S. farm products. By fiscal 1984, the EC share was less than $17 per $100 of U.S. sales.

• The lower figures partly reflect an overall decline in EC imports of agricultural products from non-EC countries—a decline related to increasing production within the European Community. In addition, the U.S. share of the total EC market dropped slightly between 1980 and 1984.

• Last year was the first time since at least the late 1960's that the EC came in second to another major U.S. customer. Japan spent $6.9 billion on U.S. farm products in fiscal 1984, roughly $200 million more than the EC. Back in 1980, EC purchases topped Japanese purchases by an unprecedented $4 billion.

"For many years, the EC had been our largest customer and, perhaps, our most dependable growth market. Growth continued, although at a generally slower pace, during the late 1970's," says economist Ron Trostle, a specialist on the EC with USDA's Economic Research Service.

"We've now reached a point, I think, where we just can't count on the EC anymore for consistent growth or for dominance over all other markets," he says.

Grain production has risen about 25% in the last 10 years, and the EC is now a net exporter of wheat and coarse grains. Here, the son of a French farm co-op proprietor sifts through grains of wheat in a hopper. *Photo by L. Falquet, courtesy of the European Community Information Service.*

According to Trostle, prospects for the foreseeable future offer little hope that U.S. agriculture can expect any dramatic or sustained resurgence in EC buying. As a matter of fact, USDA trade analysts expect another small decline in U.S. export sales this year, and they anticipate a long-term downward trend in EC demand for U.S. corn and wheat.

On top of all this, they note that the EC is becoming an increasingly strong competitor with the United States in export markets for such diverse items as soft wheat, barley, poultry meat, beef, dairy products, wine, and fruits and vegetables.

Odds of a Turnaround

What could happen to change this largely gloomy outlook?

"I don't think aggressive advertising and marketing of American products will bring our sales back to prior levels," Trostle says. "The EC nations already

Strength in Numbers

From a fairly modest beginning, the EC will soon have doubled in size, and its economic, political, and agricultural clout increases with each new member.

The EC was created in the late 1950's by the six nations that signed the Treaty of Rome—West Germany, France, Italy, the Netherlands, Belgium, and Luxembourg. In 1973, Ireland, Denmark, and the United Kingdom joined, making nine members.

The tenth, Greece, entered the EC in 1981, and Spain and Portugal are scheduled for membership in 1986. These last three nations are large producers of fruits, vegetables, wine, olive oil, and poultry meat. They also bring a 60-percent increase in the EC's agricultural land area.

The United States still has a strikingly favorable balance of farm trade with the EC and has typically chalked up a surplus in overall trade with the Community. In the last 2 years, however, total U.S. imports (agricultural and nonagricultural) from the EC exceeded total U.S. exports to the EC.

know what the United States has to offer, and they aren't buying the way they used to."

Trostle says a major boost for U.S. export prospects to the EC can probably come from only two directions: a decline in the foreign exchange value of the dollar, or significant reforms in the EC's Common Agricultural Policy.

"The EC has a system of highly structured trade barriers that impede imports of many products, providing a protective wall that insulates the production of EC farmers from outside competition." These barriers, for example, make it much cheaper for the British to import French corn and Danish pork than to buy corn and pork produced in the United States, or anywhere else outside the EC. And that's true even when the world market offers these products at a much lower price.

At the same time, high EC farm price supports have encouraged dramatic increases in production. Last year, the EC achieved record output levels in wheat, coarse grains, and oilseeds. Total EC grain production has increased about 25 percent in the last 10 years. Production of rapeseed, sunflower seed, soybeans, and other oilseeds has climbed 90 percent.

"In world trade, the EC has always been a major net importer of agricultural products. Sometime in the next decade or two, I expect it will cross over the line to become a net exporter. This is happening in one product after another. The trend has been going on for about 15 years, so it's not a short-term phenomenon," says Trostle.

He identifies several products in which the EC was once a net importer and now exports more to others than it imports. The list includes wheat, coarse grains, sugar, wine, dairy products, eggs, and beef.

Don't Count on Major Reforms

Trostle does not expect major reforms in the EC's Common Agricultural Policy, which is spurring the drive toward self-sufficiency and a buildup in export capacity. However, he does note some "hopeful signs" for U.S. exports in the budget pressures the EC is facing.

The "overstimulation" of production of certain commodities, such as dairy products, has resulted in a budget crisis in the EC. Surpluses are costly because they must be subsidized for use within the EC or for export. The EC is required to maintain a balanced budget and must turn to its members for increased funds whenever it shows a budget overrun.

Budget concerns have encouraged the EC to hold down increases in internal farm prices—despite protests of European farmers—and to institute marketing quotas on milk. High farm prices relative to world prices become very expensive to maintain once surpluses start to build.

"There are indications that the EC is realizing its role and responsibility in world prices," says Trostle. In the past, he says, the EC seemed to ignore the world price implications of its grain policies, for example. "Surplus production and subsidized exports force down world prices. That comes back to haunt them because greater subsidies are needed to make up the difference between high internal EC farm prices and lower world market levels."

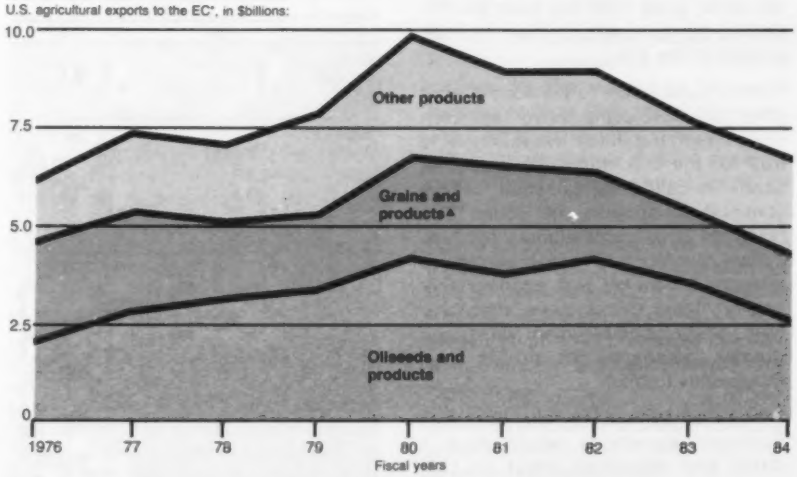
The EC also faces pressures from the United States and some other nations for a reduction in EC import barriers and export subsidies. Nevertheless, the recognition that large surpluses can be costly—a strain both on the budget and on trade relations—does not mean that the EC is likely to abandon past policies. The agricultural ministers of EC member countries are under constant pressure to keep farm prices up.

"Although the EC has taken steps to reduce huge surpluses in some sectors, such as dairy, I see no signs of an easing up in the EC trend toward greater self-sufficiency and exportable surpluses in agriculture," Trostle says.

Value of the Dollar

"Given the rather limited prospects for dramatic changes in EC policy, a weak-

The European Community Is No Longer the Growth Market It Used To Be



*EC-10. ▲Grains and products, including feeds and fodders but excluding oil cake and meal.

Europe has a strong farm lobby. Here, Italian farmers protest low farm incomes at an EC summit meeting in Athens. The placard on the left says: "There is no Europe without agriculture." *Photo by Jean Guyaux, courtesy of the European Community Information Service.*

ening of the dollar may offer the best opportunity for a healthy rebound in U.S. agricultural exports to the EC," he adds.

The U.S. dollar has appreciated steadily against the currencies of all EC members since 1980. In January 1980, an American product priced at $1 cost a Briton well under half a pound—excluding transportation costs and tariffs. By January 1985, a $1 U.S. product cost a Briton twice as much solely because of changes in the exchange rate. A French buyer paid about 4 francs for a $1 U.S. product at the start of 1980. Today, a $1 American product costs around 10 francs.

"In cases where EC import decisions are strictly a matter of price, the sharp appreciation of the U.S. dollar has seriously damaged our competitive position relative to other suppliers," Trostle notes.

In the late 1970's, U.S. exports to the EC rose as the value of the U.S. dollar declined relative to most European currencies. The dollar hit a low against the EC currencies in 1980, and that was also the record year for U.S. agricultural exports to the EC. The appreciation of the dollar since 1980 has been accompanied by a steady decline in U.S. exports to the EC.

Faithful subscribers to the adage "what goes up, must come down" are convinced that this must eventually hold true for the U.S. dollar. On the other hand, so-called fundamental factors continue to support the dollar. The favorable investment climate for U.S. dollars relative to European currencies includes a stronger U.S. economic recovery, higher interest rates (after inflation), lower unemployment rates, and greater prospects for profits than Europe has to offer.

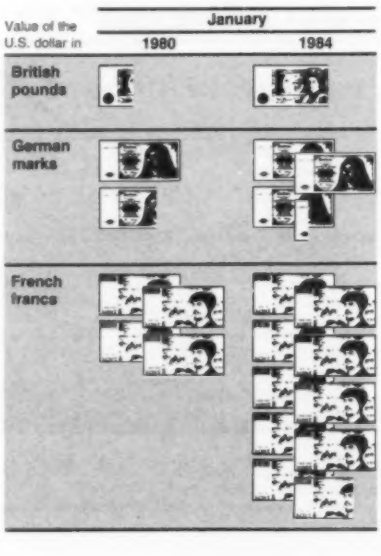
"The devaluation of the dollar relative to European currencies would have a direct and immediate effect on U.S. exports of products that are not covered by the EC's import levies," Trostle says. The commodities most likely to benefit would be soybeans and soybean meal.

Many other products would continue to face tough obstacles. U.S. feed grain exports, for instance, are suffering because of internal EC policies resulting in increased production, he adds. "With lower world grain prices, there might be a longer term adjustment in EC policies that would favor imports of U.S. feed grains," but he doesn't anticipate an immediate response. "Products such as tobacco and processed fruits and vegetables are somewhere in the middle ground in terms of the potential for U.S. export gains to the EC if the dollar weakens."

The strong dollar has not only depressed U.S. exports to the EC. It has also hurt American products in the competition with the EC for other markets.

"While total U.S. export sales have dropped, the EC has expanded its exports modestly in a declining world market," says Trostle. "This came in part at the expense of the United States."

Since 1980, the Dollar Has Doubled in Value Against the Pound, Mark, and Franc



Will Recovery Spur Demand?

Aside from serious EC production shortfalls, another possible source of a turnaround in U.S. export prospects is growth in European demand. Again, the outlook is not promising. Most of the demand growth that occurs can probably be satisfied within the EC.

The EC began its economic recovery from the world recession later than the United States, and its progress is much slower. GNP growth in the United States was about 7 percent last year, an impressive figure; GNP growth in the EC was only about 1.5 percent. U.S. import demand, in fact, is helping to fuel recovery in Western Europe.

The population of the 10 member nations of the EC—now estimated at around 285 million—is growing at a rate of only about 0.3 percent a year. The livestock and poultry sectors—which support a major portion of EC import demand—are expanding at a very sluggish rate, and per capita consumption throughout the EC is virtually stagnant. Unemployment is above 10 percent in several EC nations, and jobless rates haven't been coming down.

Moreover, the EC is still running an overall deficit in agricultural trade, and its members view increased farm production as the path to greater economic independence.

The future is impossible to predict with any certainty, Trostle says, and our export prospects could potentially be enhanced by a number of developments, including changes in U.S. farm price support policy and trade policy. He adds, though, that the combination of EC protectionism and the strong U.S. dollar raise the odds that the United States might be left with a dwindling share of a stagnant or slowly shrinking EC market for agricultural products. □

[*Based on information provided by economist Ron Trostle of the International Economics Division, Economic Research Service.*]

Rice: Value Is Not Measured by Size Alone

U.S. rice production—at 220 million bushels last year—accounts for only 5 percent of the value of the major field crops produced in the United States. Rice is grown in only six states and accounts for just 2 percent of all the acres harvested for food and feed in the country.

But, while rice might be considered a minor crop by some, it is a very important part of American agriculture, according to economist Barbara Stucker of USDA's Economic Research Service. Stucker made this point clear at a recent meeting of the Texas Farm Bureau in Austin, Texas, as she outlined how the crop fits into U.S. agriculture. The following is a summary of her remarks.

If size were the only measure, rice would definitely end up on the short side. Rice is grown on fewer than 1 percent of the farms in the United States and ranks ninth among major field crops in value of production.

Even in a global perspective, U.S. rice accounts for just a fraction—about 2 percent—of world rice production.

But size is a relative concept, and value is not determined by size alone. In the six states that produce rice, the crop contributes a healthy 10 percent to the value of all field crop production.

And exports are a major story. The handful of states that produce rice account for 1 of every 4 tons traded on world markets.

There are several characteristics that distinguish rice producers from the men and women who grow other crops. Rice producers are younger, more inclined to be tenants and part-owners, and have a much higher capital investment in their rice enterprise than the average producer of wheat, corn, cotton, or soybeans.

According to the 1982 Census of Agriculture, the value of land, buildings, machinery, and equipment averaged over $1.3 million for a rice farm. For wheat and corn, values averaged $577,000; for soybeans, it was $382,000; and for cotton, the average value was $970,000.

Rice is closer to being an edible product right after harvest than wheat, feed grains, and soybeans. Once the hull is removed, a consumable product exists without any further processing.

But domestic consumption of rice is minor when compared with other starches. In 1982, Americans consumed about 12 pounds of rice per person compared with 114 pounds of wheat flour, 47 pounds of fresh potatoes, and 18 pounds of frozen potatoes. That's a picture of formidable competition.

On the world market, U.S. rice exports find their way into more than 150 countries. This is a really interesting fact because while U.S. rice is by no means the cheapest available, it remains a source of stability in a world market that has earned a reputation of being inherently unstable. Resilient production capacity, a strong technological base that offsets weather uncertainties, stable supplies, and a domestic market that is not dependent upon rice as a staple have made U.S. rice a reputable product in world trade. These are rather unique characteristics.

And if recent technological breakthroughs are implemented, the United States will have a considerably larger rice crop available for export. New, higher yielding varieties can provide increases of anywhere from 25 to 50 percent in production from a single acre. The implications are staggering.

However, the economic environment, including relatively weak demand, is another issue. Rice producers are faced with the same problems as everyone else in agriculture. The same credit is available, interest rates are the same, and the impact of a strong U.S. dollar is the same.

Rice producers also face the same political environment as other producers. Current debate on the upcoming farm bill will affect all agricultural commodities.

What does this mean for rice, which is a unique industry in some respects?

It means two things: First, there is a pressing need to clearly identify the issues the rice industry faces; and, perhaps more importantly, the need to establish priorities for those issues.

Without ranking the issues in terms of importance, the following is a brief list of issues that deserve consideration:

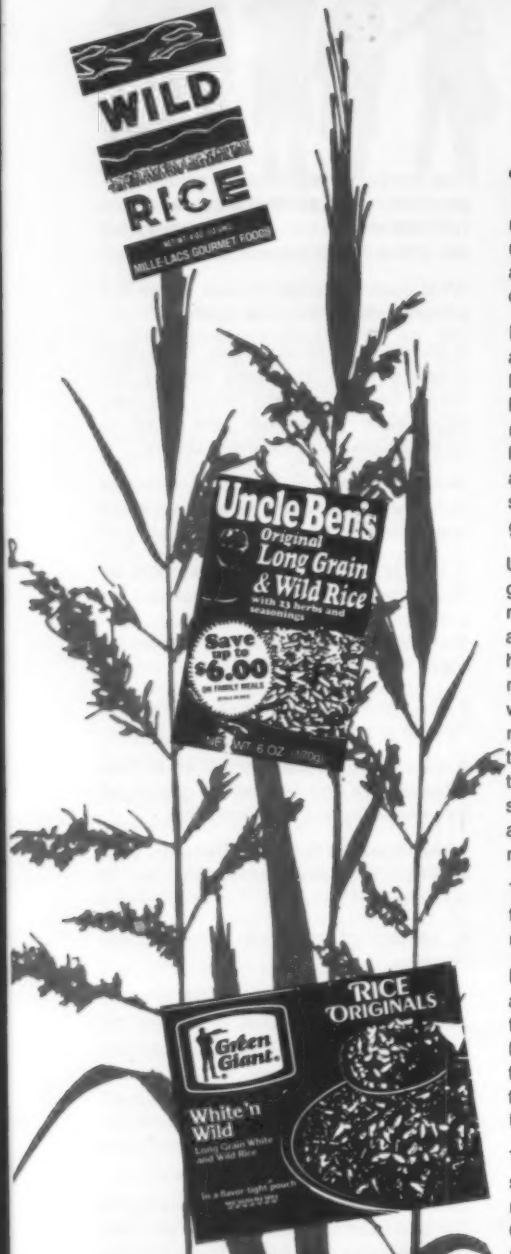
- how to achieve a level of support for rice producers that accommodates an economic, political, and social environment that appears intent on becoming more "market oriented."
- the impact of technology on the productive capacity of the U.S. rice sector.
- a frustrating trade outlook, uncontrollable by any one commodity group, yet influenced by them collectively.
- the impact of fiscal and monetary policies on the rice sector and all of agriculture.
- the lack of growth in domestic rice markets.

Ranking the issues is subjective. From an economic perspective, I might be inclined to give priority to fiscal and monetary policy, second to trade issues, and third to achieving a level of support within the rice sector. From a producer perspective, those priorities might be totally reversed.

Compromise will probably be the key to the development of future rice policies. But, whatever policies are instituted, the industry will have to become more actively involved in promoting rice consumption, both domestically and internationally. □

[*Written by economist Barbara Stucker of the National Economics Division, Economic Research Service.*]

Wild Rice Outgrows the Wild



There is actually no such thing as wild rice. Technically speaking, wild rice is usually not wild and it's definitely not rice. Wild rice is really a grain more akin to oats than rice, and most of it is now cultivated in commercial paddies.

It is identified as rice mainly because of its appearance, according to USDA rice analyst Barbara Stucker of the Economic Research Service. The brownish seed resembles a kernel of long-grain rice. Also like long-grain, wild rice is the seed of an aquatic grass and grows in shallow water similar to the irrigated paddies of long-grain rice, Stucker says.

Until about 20 years ago, most wild rice grew naturally in the lakes and slow-moving streams of northern Minnesota and bordering Canada. The crop was harvested by native Americans—members of the Ojibway Indian tribe—who processed it using traditional methods passed down from their ancestors. The Indians generally sold or traded the wild rice locally, although some small portion of the crop had always ended up on the gourmet food market, Stucker says.

Today, wild rice is still considered something of an exotic commodity, but its markets have expanded considerably.

Boxes of wild rice and mixtures of wild and long-grain rice are now commonly found on supermarket shelves. And hopes are for the market to develop further, according to Reynold Dahl, a professor of agricultural economics at the University of Minnesota in St. Paul.

The industry is still in its infancy, Dahl says, noting that U.S. cultivation of wild rice began in Minnesota in 1967 and in California as recently as 1976. Both states now account for all U.S. commercial production.

As far as world output, Dahl says, Canada is the only other producer. Almost all Canadian production is grown naturally in the provinces of Manitoba, Ontario, and Saskatchewan. Mechanical harvesting is permitted in Canada, but Minnesota lakes can only be harvested by the traditional canoe and flail (which looks like a long-handled stick). Production in the wild fluctuates widely in both Minnesota and Canada.

Until about 20 years ago, most wild rice grew naturally in the lakes and slow-moving streams of northern Minnesota and bordering Canada.

Production of lake wild rice in Minnesota has averaged about 400,000 pounds in recent years. Canadian production was more than twice this amount in 1984 due to successful seeding of lakes in Saskatchewan.

Taming the Grain

Although scientists in Minnesota had long been interested in wild rice, commercial cultivation appeared unlikely because of seeding and harvesting problems.

But, by the late 1960's, agronomists at the University of Minnesota had worked out some of the production problems. The

Wild Rice Production In the United States and Canada Is On the Increase

	U.S. production	Canadian production
	thousand pounds	
1965	435	12
1970	853	87
1975	1,433	115
1980	3,550	1,115
1981	3,218	687
1982	3,937	449
1983	4,800	470
1984	5,550	840

cultivation process was helped along because of the interest of a leading long-grain rice processor—Uncle Ben's, Inc. Uncle Ben's had developed a packaged mixture of herbs and wild and long-grain rice, Dahl says, and test marketing had been more successful than the company had anticipated. There was one drawback to the new product: the supply of wild rice. Production in the wild is just not dependable.

"Like any crop, there are good and bad years," Dahl says. The crop is subject to varying water levels, weather, bugs, birds, and blights. "You can only expect exceptional production of lake and stream wild rice in maybe 1 of every 4 years."

Although Uncle Ben's was willing to commit to national marketing of the new wild rice product, Dahl says, the company would do so only with a dependable supply of the crop. Uncle Ben's began wild rice research in 1966 and contracted with three Minnesota farmers to plant acreage of the new varieties developed by University of Minnesota agronomists.

More restaurants are serving wild rice and wild rice blends, and more and more packaged mixtures are turning up in supermarkets.

It was the beginning of an industry that developed rapidly, Dahl says, from 900 commercial acres and 36,000 pounds in 1968 to over 25,000 acres and over 3 million commercial pounds in 1984—and that doesn't count California, nor does it include Minnesota's lake and stream production. "It's exciting," Dahl says. "It's not very often [we can] witness the domestication of a wild crop."

The Industry Expands

What's happening to all this wild rice?

More restaurants are serving wild rice and wild rice blends, and more and more packaged mixtures are turning up in supermarkets, says USDA's Stucker. The blends are popular, she maintains, because wild rice alone has a nutty flavor that is considered rather strong by some people. In addition, wild rice prices are high. Since a little wild rice goes a long way (1 cup raw equals about 4 cups cooked), blends are a good way of keeping the costs to consumers down.

Retail prices can vary considerably. In Minnesota, wild rice can cost as little as $4 a pound, but a pound can cost from $7 to $20, or more, in other areas of the country.

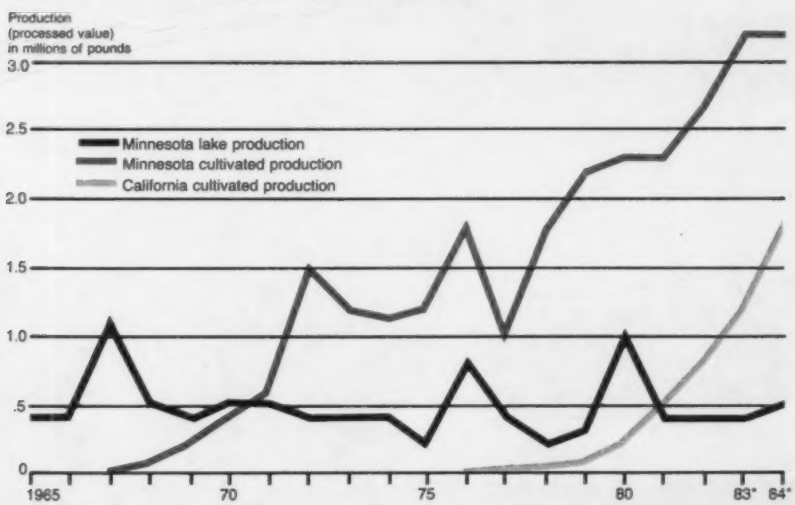
Demand is strong, according to Dahl, and production is likely to increase further, especially in California. In fact, Dahl adds, the California acreage is making Minnesota growers a bit nervous.

Wild rice production in California is centered in the Sacramento Valley where some farmers are diverting long-grain rice acreage to wild rice. California was the nation's fourth largest producer of long-grain rice last year, with a harvest of about 372 million pounds. "They already have the paddies and the harvesting equipment," Dahl says, "so the capital investment doesn't make such a dent." Last year's wild rice production topped 1.8 million pounds, not bad for a state that got started with the crop only 8 years ago.

Still the leader in wild rice production, Minnesota harvested 3.7 million pounds in 1984 from its lakes and cultivated paddies. The popularity of wild rice has really meant a lot to Minnesota, Dahl says, because there are not too many alternative uses for the land where it's grown. □

[Based on information provided by rice analyst Barbara Stucker of the National Economics Division, Economic Research Service, and Reynold Dahl, professor of agricultural economics, University of Minnesota, St. Paul.]

Wild Rice Production Has Increased Dramatically

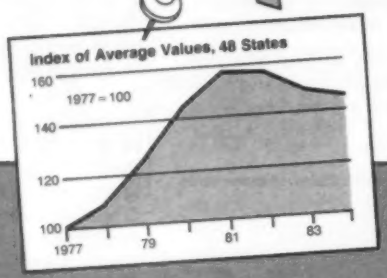


*Preliminary estimates.
Source: University of Minnesota

Signs of Tough Times for Farmers

Farmland Values Have Declined Sharply in Many States, Eroding the Collateral Base for Current and Future Loans

Percentage changes in farm real estate values per acre, Feb. 1981-Apr. 1984



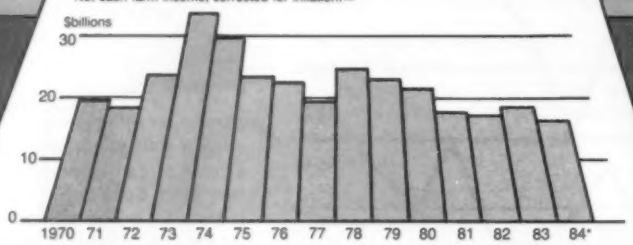
These Developments, and Others, Have Left Many Farmers in a Very Precarious Debt Position

Type of farm	Financial problems may be considered: Serious	Extreme
	percent of farms by type	
Cash grain	14.2	7.1
Field crop	11.8	8.9
Vegetable & melon	17.8	6.3
Fruit & nut	7.7	4.0
Nursery	21.7	0
General crop	6.7	4.6
General livestock	10.6	7.1
Dairy	17.8	8.7
Poultry & egg	17.9	17.7
Other livestock	12.6	9.1
All Farms	11.1	6.6

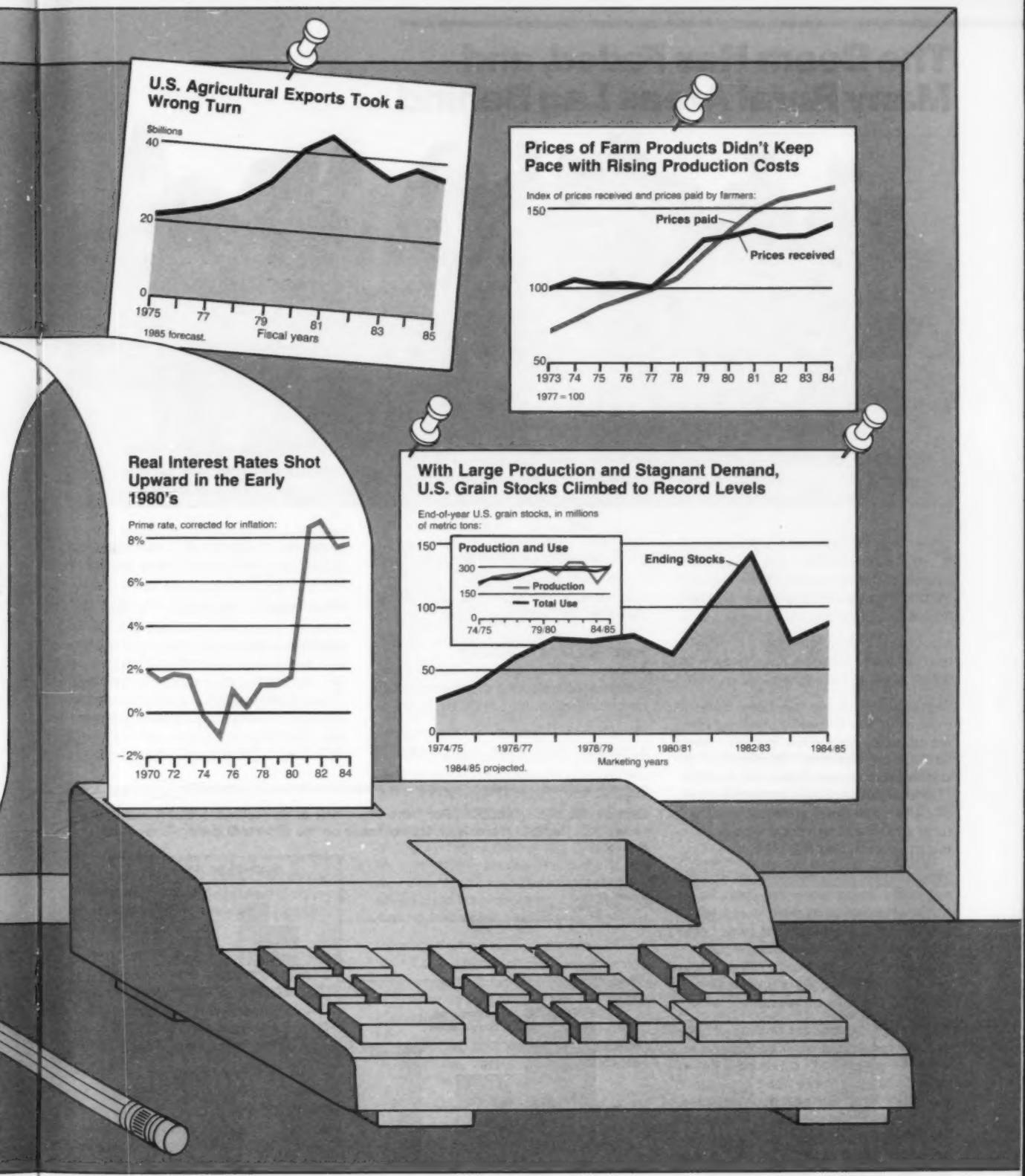
Farms with *serious financial problems* are defined here as those carrying debt-to-asset ratios of 40% to 70%. Farms with *extreme financial problems* are those whose debts exceed 70% of the value of their assets. Figures as of January 1984.

Real Farm Income Sagged After 1980

Net cash farm income, corrected for inflation:▲



▲Constant 1972 dollars. *1984 estimated.


U.S. Agricultural Exports Took a Wrong Turn
$billions
40
20
0
1975
77
79
81
83
85
1985 forecast.
Fiscal years
Prices of Farm Products Didn't Keep Pace with Rising Production Costs
Index of prices received and prices paid by farmers:
150
100
50
Prices paid
Prices received
1973 74 75 76 77 78 79 80 81 82 83 84
1977 = 100
Real Interest Rates Shot Upward in the Early 1980's
Prime rate, corrected for inflation:
8%
6%
4%
2%
0%
-2%
1970 72 74 76 78 80 82 84
With Large Production and Stagnant Demand, U.S. Grain Stocks Climbed to Record Levels
End-of-year U.S. grain stocks, in millions of metric tons:
150
100
50
0
Production and Use
300
150
0
Production
Total Use
74/75
79/80
84/85
Ending Stocks
1974/75
1976/77
1978/79
1980/81
1982/83
1984/85
1984/85 projected.
Marketing years

The Boom Has Faded, and Many Rural Areas Lag Behind

For a brief time in the late 1960's and early 1970's, rural areas were booming. Both jobs and people flocked to rural America in numbers rarely seen before.

Not only did manufacturing job growth in rural areas outpace such growth in urban centers, but population spurted.

"Associated with the rapid employment expansion was the well-publicized revival of rural population growth," says economist Herman Bluestone of USDA's Economic Research Service. "The population growth rate was higher, one and a half times as much, in fact, in rural and small town communities as in metro areas during the 1970's."

Income disparities between metro and nonmetro areas were reduced. Rural housing improved in many areas. However, rapid development was also accompanied by strains on rural government services, higher costs of living, and other changes that were unwelcome to some long-time rural residents.

Although a subsequent slowing of nonmetro economic growth cooled the feverish pace of change, rural communities have been largely reshaped over the past four decades. According to Bluestone, job gains in manufacturing and services, coupled with declines in agriculture, have transformed the face of rural America.

"By 1980, manufacturing, construction, and service-producing industries had come to dominate economic activity in nonmetro areas much as they do in metro areas," Bluestone says.

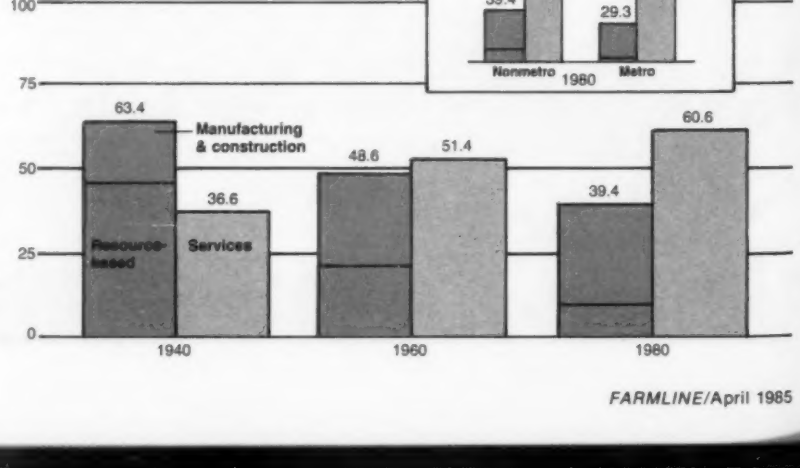
Rural Job Growth Slowing

But it's unlikely that nonmetro areas, overall, will match job creation in urban communities in the 1980's, he says.

"Employment growth in the nation's rural and small town communities is expected to continue lagging behind growth in metro areas during the rest of the decade."

The reason: Nonmetro areas still depend more than metro areas on slow-growing nondurable goods manufacturing, agriculture, and mining than they do on fast-growing, service businesses. The growth outlook is particularly unfavorable for nonmetro areas where farming dominates economic activity, such as parts of the Midwest. Farming com-

Service Jobs Now Account For More Than Half of Employment, But Nonmetro Areas Still Depend More Than Metro Areas on the Slower-Growing Economic Sectors



munities there suffered a decline in employment during the late 1970's and early 1980's.

"However, rural employment growth during the 1980's will probably be more rapid than in the three decades following 1940, when nonmetro areas were adjusting to the large job losses in agriculture and other natural resource industries."

Between 1940 and 1970, he says, "nonmetro areas were simply unable to generate enough new jobs to fully absorb additions to their labor force. As a result, many rural residents migrated to metro areas to find jobs."

In the 1950's, rural communities gained one job in manufacturing for every three they lost in the natural resource industries. By the 1960's, gains in manufacturing offset job losses in natural resource industries.

Given the rather weak performance of nonmetro areas since 1976, Bluestone says, "the question is raised whether the relatively strong nonmetro growth of the late 1960's and early 1970's was just a temporary phenomenon rather than the beginning of a long-term trend."

Regions Make a Difference

Regional differences, of course, add some variety to this picture.

The country's western and southern rural sections sported more rapid job growth than the Midwest and Northeast nonmetro regions during the late 1970's and early 1980's.

In fact, economic disparities in years ahead may be more pronounced on a regional rather than rural-urban basis. That appears to be one lesson growing out of the country's experience during 1976-82, says Bluestone.

In that 6-year span, economic conditions deteriorated most in the Midwest and held up best in the West. Even within the Midwest, the eastern manufacturing belt was more severely affected than the western half of the region.

"In the nation's Northeast, job growth lagged behind the national average, and there was a large exodus of discouraged job seekers from the labor force," says Bluestone. "By contrast, the South had above-average employment growth but also an above-average increase in the rate of unemployment, as more persons entered the labor force than the employment growth could accommodate."

He adds that labor market conditions in the Midwest declined more in relation to other regions during the 1979-82 period of economic stagnation than during the preceding 1976-79 upturn.

"Even so, signs of economic distress in the Midwest emerged well before the 1979-82 recession." □

[*Based on information provided by economist Herman Bluestone of the Economic Development Division, Economic Research Service.*]

Smaller Gains, Deeper Losses

Rural areas were helped less by economic recovery and hurt more by economic recession than metro areas from 1976 to 1982.

No one is hoping that holds true for future business cycles, but it appears to have been the pattern of the 1976-79 business expansion and the 1979-82 slowdown.

"Nonmetro areas performed more poorly than metro areas in almost all regions during the 1976-82 period," says ERS economist Herman Bluestone.

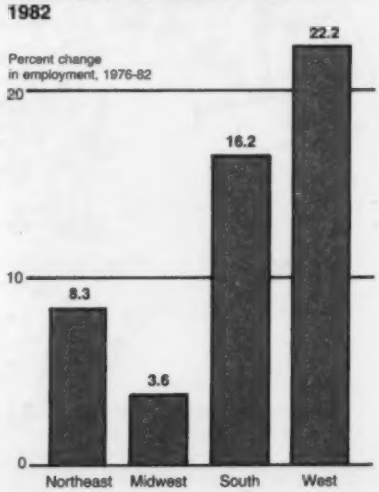
"Among nonmetro areas, less economic growth occurred in farm than in nonfarm counties," he continues. "And, among farm counties, those in the Northern Plains fared less well than did those in other areas."

Comprehensive economic statistics on rural areas since 1982 are very limited. The information that is available, however, suggests that the current economic recovery has not yet taken hold in some rural areas.

"A number of factors that spurred nonmetro growth in the late 1960's and early 1970's, including a plentiful supply of labor, an attractive business climate, and an influx of retirees from urban areas, may now have lost some of their force," says Bluestone.

"If nonmetro areas have in fact reverted to their earlier pattern of relatively slow growth, rural development policy may have to focus more attention on expanding economic opportunities or on helping rural areas better adjust to slower growth."

Differences in Employment Growth Were Greater on a Regional Rather Than Rural-Urban Basis From 1976 to 1982



Farm Policy Shifts: Trouble for Rural Counties?

Most of the nation's rural communities would not be seriously affected by changes in farm commodity policy, according to analysts of USDA's Economic Research Service. However, areas that are most vulnerable to farm policy shifts also tend to have relatively limited resources to fall back on.

"Of the nation's approximately 2,500 nonmetropolitan counties, some 700 are considered farming-dependent," says economist Mindy Petrulis. "Of those, about 500 receive large per capita outlays from federal farm commodity programs."

These agriculture-dependent counties are the ones that haven't participated fully in the reshaping of the rural economy to a more diversified base. They are concentrated on the western edge of the Corn Belt and in the Great Plains. Smaller concentrations can also be found in the Mississippi Delta, southeastern Coastal Plains, and in the Mountain states such as eastern Washington and Idaho.

These counties averaged only 11,932 residents in 1980, compared with an average population of 25,613 for all nonmetro counties. Forty-six percent have no incorporated town of 2,500 or more people, and nearly 70 percent are not adjacent to a metro area.

Farm Ties Tough To Break

The same reasons that make some counties dependent on agriculture also make it difficult for them to become less so—their small population and isolation from most major urban markets, as well as the pattern of population decline that has left them with disproportionate numbers of the very young and very old.

"During the 1930's, when most farm programs were initiated, agricultural support programs became the dominant factors affecting the well-being of rural America," says Petrulis. But, since World War II, years of farm consolidation and the growth of nonfarm rural jobs, along with nearly uninterrupted outmigration of farm and nonfarm people from farming-dependent rural areas, have changed the situation.

Agriculture-dependent counties haven't participated fully in the reshaping of the rural economy to a more diversified base.

"Today," says Petrulis, "most rural people do not rely on agriculture and USDA programs as a principal source of employment or income."

That pattern even extends to farmers. When considered as a group, farmers now receive most of their income from nonfarm sources. Moreover, major farm program commodities account for only about 36 percent of total cash receipts in agriculture.

"Thus, changes in farm commodity policy are less important for most rural communities today than the growth and prosperity of the overall national economy, the effects of monetary and fiscal policy, and international trade," he says.

Geography Plays a Role

Geographic factors play a role, too, in deciding how impacts of farm policy shifts should be measured.

"We can be sure that selective changes in commodity programs will have different effects in various regions of the country," says Petrulis. "For example, a 10-percent set-aside provision in the 1985 feed grains program will affect not only corn production but also local employment opportunities in agriculture-related industries. Such effects may be especially significant for corn and soybean production areas in such places as Minnesota, where the farm sector and the agricultural input and processing industries account for a substantial percentage of total local employment."

In contrast, he says, impacts will be mild, at most, in areas dominated by nonagricultural activities.

Farming-Dependent Counties Are Concentrated in the Corn Belt and Great Plains

*Counties in which 20% or more of total labor and proprietary income comes from farming, 1975-79

Changes in farm commodity programs may have a significant impact beyond the farm, affecting businesses associated with agriculture and the communities that depend on them. *Photos courtesy of J. Norman Reid.*

"Farm program changes will affect individual farmers, but may have only limited impacts upon local economies. An example is the irrigated cotton growing areas of Arizona, where agricultural input and processing industries make up only about 1 percent of the total employment."

Effects on land use itself would likely be felt as well.

"With lower farm price supports, more marginal land would be removed from production, and some agricultural production would shift to the lowest cost production regions where land might be used more intensively," says Petrulis. "This may have widespread impacts on some rural areas. There may be reduced interest in soil loss and less conservation by farmers, although erosion will be somewhat offset by the reduced cultivation of more marginal land. Depending on how these effects balance out, the result could be additional deposits of silt in waterways and environmental degradation for rural residents."

Still, the greatest impact of changed policies may fall upon those areas least able to make the transition to a more diversified economy.

"Rural communities with a high dependence on farming have many specialized human and business assets that have limited use elsewhere in the economy," says Petrulis. "It is likely that adjustments would be most severe among residents of these sparsely populated farming areas, which number several hundred and are highly concentrated in a few states. These states include Iowa, Nebraska, Illinois, North Dakota, and South Dakota." □

[Based on information provided by economist Mindy Petrulis of the Economic Development Division, Economic Research Service.]

Kansas and Nebraska Share 9 of the 20 Most Farming-Dependent Counties in the Nation

Counties	Percent of income from farming[1]
Issaquena, MS	74.2
Slope, ND	71.1
Cimarron, OK	70.6
Arthur, NB	68.1
Banner, NB	68.0
Wichita, KS	64.2
Armstrong, TX	64.1
Wheeler, NB	64.1
Liberty, MT	63.9
Haskell, KS	63.7
Sheridan, KS	63.6
Crowley, CO	63.4
Greeley, KS	62.4
Baker, GA	61.6
Glasscock, TX	61.4
McPherson, NB	61.1
Hodgeman, KS	60.5
Petroleum, MT	60.5
Murray, MN	60.4
Sully, SD	59.9

[1]Based on total labor and proprietary income in the county, 1975-79.

World Debt Taxes Exports

Developing countries with debt problems pose a problem for the United States as well.

Many of them happen to be lucrative markets for U.S. farm products, and they'll be cutting their imports for at least the next 5 years.

That's the outlook offered in a recent Economic Research Service report which examines how the debt problem is limiting global trade and growth. Authored by economists Mathew Shane and David Stallings, the study says the crisis is clearly defined for the United States.

"Eighteen countries which are major markets for U.S. agriculture hold more than 60 percent of the problem debt," says Shane. The debilitating dimensions of world debt began with oil price rises more than a decade ago.

"International banks responded to the first oil crisis in 1973-74 by making large sums of money available to developing nations at low interest rates," says Shane. "The banks loaned substantial amounts as their deposits from oil-exporting countries grew."

Then came the second oil price rise. "The middle-income countries tried to sustain their import and development programs after the 1979-80 oil crisis by borrowing even more heavily from the international banks. But repayment was made more difficult by rising interest rates, devalued exchange rates, and lost export earnings."

Looking to the future, Shane says that "both current debts and national economic policies in the developing countries must be restructured to begin the strengthening of their economies. Developed countries can help the economic recovery of developing nations by providing markets for Third World export commodities."

Financial Constraints to Trade and Growth: The World Debt Crisis and Its Aftermath *by Mathew D. Shane and David Stallings. (Published December 1984; 30 pages of text, charts, and tables: GPO Stock No. 001-019-00381-2; $2.00.)*

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- Food and nutrition, with charts focusing on food stamps and other food assistance programs.
- U.S. trade and world production, including charts on U.S. agricultural exports and imports by commodity and foreign customer, export prices, and world production.
- Commodity trends, with charts on production, marketings, and prices for livestock and dairy, poultry, grains, oilseeds, fibers, fruits and vegetables, sugar, tobacco, and other commodities.

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AGRICULTURAL ROUNDUP

Cattle Numbers Down Again

USDA's latest count of the nation's cattle herd shows that numbers are down again.

The January inventory of cattle and calves fell 3 percent from the year-earlier level—dropping from 113.7 million to 109.8 million head. That's the lowest it's been since 1968, when the herd stood at roughly 109 million head. The 1984 calf crop, at 42.5 million head, was the lowest since 1963.

"The reasons for the strong herd liquidation vary. They range from drought in major cattle-producing regions, which reduced forage supplies, to low net returns to cow-calf producers since 1981. The general financial stress in agriculture also plays an important role," says Economic Research Service economist John Nalivka.

This year's nose count of all cattle and calves marks the third consecutive year of decline, and "next year's January 1 inventory will likely show another decline.

By January 1987, however, cattle numbers should begin to pick up as cattle prices and returns improve over the next couple of years."

The latest figures show that drought-battered Texas producers reduced their beef breeding herds to 5.6 million head, down 8 percent from a year earlier.

"Other major cattle producing states that showed substantial declines of more than 5 percent in their inventories were Missouri, Nebraska, Montana, and Kansas," says Nalivka.

The number of beef cows and heifers that calved during 1984 was 35.4 million, a drop of 6 percent from the 1983 total. The number of replacement heifers held for beef herds declined 10 percent from a year earlier.

When producers are expanding the herd, more heifers are held for breeding. A substantial increase in the number of heifers put on feed (headed for the slaughterhouse) indicates producers are liquidating herds.

"Reluctance to expand herds was evidenced by a 16-percent increase in the number of heifers on feed during 1984 and a significant drop in the number of heifers entering the herd during the second half of the year," says Nalivka.

Feeder cattle (cattle outside feedlots and available to be placed on feed) on January 1 were down 4 percent from a year earlier. Calves, which represented 67 percent of total supplies, were down 4 percent largely because of the smaller 1984 calf crop and a 7-percent increase in commercial calf slaughter. Yearling cattle supplies were down 5 percent.

Nalivka says the base for future beef production is even lower than the cattle inventory suggests considering the large number of cattle on feed as of January 1 that will have been marketed through mid-1985.

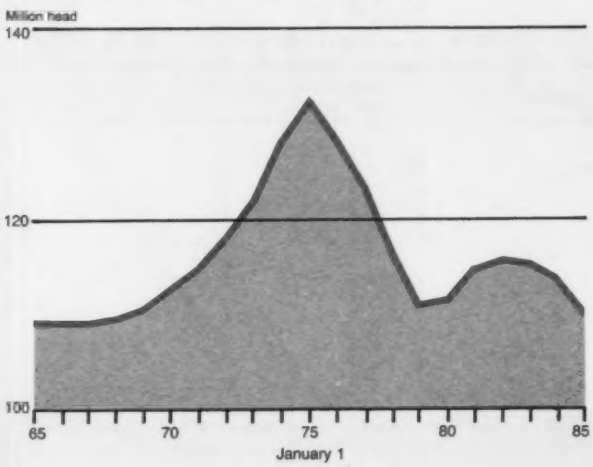
"These cattle are included in the January 1 cattle and calves inventory. With only a small number of replacement heifers likely to calve and enter the herd during 1985, the January 1, 1986, inventory is likely to drop another 2 to 3 percent."

Beef and veal production through 1985, however, is not likely to be seriously affected by the lower January 1 inventory.

"Production is expected to be up about 2 percent during the first quarter of 1985. Fed cattle marketings slowed during December, resulting in an overflow of finished cattle into January. Beef production, though, will likely decline over the remainder of the year, ending down about 2 to 4 percent from a year earlier," says Nalivka.

"With stronger cattle prices likely during 1985, cattle producers should receive a positive net return. However, sharp gains will probably be limited by large total meat supplies through the end of the decade."

Cattle Numbers Are the Lowest Since 1968



Gleaning

Contrast shares of the world's population with shares of GNP and agricultural land, and there's one region that stands out—North America and Oceania. The region groups the United States and Canada with Australia and New Zealand. Economist Thomas Vollrath reports that the combined population of these four nations is only 6% of the world total, but they're endowed with almost 20% of the world's agricultural land. They also generate an estimated 28% of the world's gross national product. Relative to population shares, all other regions come out low, either in GNP or land or both. Even the 18 free market nations of Europe, which turn out 29% of the world's GNP, have 9% of the world's population but just 7% of the agricultural land.

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